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**ORGANIZED CRIME IN RUSSIA: A THREAT TO THE
NATIONAL SECURITY INTERESTS OF THE UNITED STATES**

BY

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ABSTRACT

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Organized crime in Russia has a direct, negative impact on the national security interests of the United States. The US national security interests in Russia include regional stability, development of a free market-based economy and control of the proliferation of weapons of mass destruction. These interests are best served by a viable, democratic government in Russia. With the fall of the Soviet Union in 1991, Russia began a movement toward democracy. However, the powerful forces of organized crime within Russia and its grip on the domestic economy, is impeding its progress. International solutions to this challenge include greater cooperation among western nations to stem the flow of illegal money and material out of Russia. For its part the United States is developing closer law enforcement ties with the Russian Ministry of Interior. The Federal Bureau of Investigation opened an office in Moscow. Future efforts must be focused on the mutual development of criminal intelligence in order to identify, arrest and successfully prosecute Russian organized crime figures. In addition the products, goods and services which Russian organized crime provides to the Russian people must be produced and delivered through the legal Russian market.

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The United States National Security Strategy (NSS) of engagement and enlargement is under assault in the Russian Federation. The enemy is not the Russian military, nor is it an agent the Russian government controls. The enemy is the organized criminal element operating within Russia.

After the control and security of weapons of mass destruction, the biggest threat to the US national security interests within Russia today is organized crime. Just as the threat is vague, so is its impact. The results of this assault rarely impact directly on US material or personnel. Rather the attack is upon the fundamental changes in Russian society which are necessary for it to complete its transition to democracy and a free market-based economy.

One of the objectives of the US NSS is to promote democracy in Central and Eastern Europe and ensure the establishment of free, market-based economies.¹ As this paper will demonstrate, these objectives are being indirectly contested by the rapid and pervasive rise of organized crime in Russia.

Scope of the Problem

The United States is not alone in this attack from criminal elements. The Center for Strategic and International Studies (CSIS) held a conference in Washington DC on September 24, 1994. This conference on Global Organized Crime² brought together experts in the fields of law enforcement, intelligence, economics, political science, data processing/computers, etc, for the purpose of exploring the dramatic rise in global organized crime. At this conference, Mr.

James Woolsey, then Director of Central Intelligence, made the following statement.

“... the threat from organized crime transcends traditional law enforcement concerns. While organized crime is not a new phenomenon today, some governments find their authority besieged at home and their foreign policy interests imperiled abroad. Drug trafficking, links between drug traffickers and terrorists, smuggling of illegal aliens, massive financial and bank fraud, arms smuggling, potential involvement in the theft and sale of nuclear material, political intimidation and corruption all constitute a poisonous brew - a mixture potentially as deadly as some of what we faced during the cold war.”³

Mr. Woolsey's comments are not overstated. The National Security Strategy of Engagement and Enlargement is challenged by the chaos and coercion generated by organized criminal activity. Governments are destabilized to the point of being ineffective, or at worse so corrupt internally as to be a threat to even their own population. In any case, there is a direct threat to world order and civility.

In the executive summary to the CSIS report cited above, it is noted that the dimensions of global organized crime present a greater international security challenge than anything Western democracies had to cope with during the cold war. Worldwide criminal alliances are being forged in every criminal field from money laundering and currency counterfeiting to trafficking in drugs and nuclear materials. It goes on to estimate that worldwide profits from organized crime is as high as \$1 trillion (trillion with a 't').

The impact of the disintegration of the Soviet Union on the world order of the 20th century is immense and even today all of the ramifications may not be entirely understood. For example in Russia, which as the center of power of the

USSR may arguably have been the most advanced of the soviet republics, the economic, political and cultural impact has been simply devastating. The immediate collapse of the Communist Party coupled with the decisions to 'divest' the state government of all of its collectives, factories, etc, in a rush to privatization opened the door to corruption, opportunism and crime. Anton Surikov notes in his article Crime in Russia: The International Implications; "The western Mafiosi were attracted to the Soviet Union not only by the existence of prospective partners but also by the growing disintegration of law enforcement and security structures."⁴

There are no immediate, instantaneous solutions. The international nature of organized crime, particularly in Eastern Europe, requires an international response. Thus, in addition to its unilateral response, the US must exercise its international leadership to craft an appropriate and effective response from all democratic countries. The United States must act to build a broad response across the elements of national power to help set the conditions for the Russian people to determine their own destiny without the tyrannical specter and intimidation of organized crime.

Organized Crime in the USSR - A Historical Perspective

The historical and continuing presence of organized crime in Russia may be explained by several cultural phenomena of Russian society. As Marshall Goldman notes in his article "Why is the Mafia So Dominant in Russia?"⁵, the

historical pervasiveness of the Soviet government into its citizens' economic and political life caused it to become socially and morally acceptable to 'cheat the state'. In fact this attitude predates the Stalinist era, having its roots in the nineteenth century or possibly earlier.

In testimony before the Commission on Security and Cooperation in Europe on 10 June 1994, Mr. Stephen Handelman outlined the historical roots of the present day Russian Mafia.⁶ Handelman testified that although a criminal society existed in Russia for hundreds of years it was only after the 1917 revolution that many of the groups came together and formed a loose association. As a group they were referred to as "The Vorovskoi Mir" or Thieves Society or Thieves World.

As in other organized crime groups a hierarchy developed with 'workers', middlemen, lieutenants and of course godfathers. In Russia a godfather is known as vor (vory=plural). Politically the Vorovskoi Mir opposed communism. For example one could not rise to become a leader in the Vorovskoi Mir if you were a member of the communist party -- nor if you had been a member of the Young Pioneers, as a child.

However, Handelman reports an interesting phenomenon occurred with the 1991 fall of the Soviet Union. With the approaching lack of any credible central government the leaders of organized crime sensed an incredible potential for profits in the black-market and therefore moved to further their control over it.

The Vorovskoi Mir positioned itself to take advantage of the imminent chaos. In December 1991 30 men gathered in a dacha near Moscow. They had traveled from Georgia, Armenia, the Caucasus's, St. Petersburg, Kiev and Odessa. One had traveled across seven time zones from Vladivostok on the Pacific coast. These men were senior leaders of the Thieves World. They had traveled to Moscow to discuss what the downfall of the central government of the Soviet Union would mean to them.⁷

Clearly, they saw virtually unlimited opportunities in the coming breakdown of the central government. This would mean each republic would exercise legal jurisdiction only within its own borders. The disintegration of the central banking system would create unlimited opportunities for currency speculation. The disappearance of central law enforcement empowered the criminal organization with a freedom of movement unprecedented under the repressive Soviet system. Furthermore, they would soon be free to open up operations abroad without the worry of the KGB intervening.

However an important challenge to their operations became apparent. Under the old, central government system there had been an order of sorts. The vory had been able to set up certain arrangements with local authorities. This had served the purpose of keeping criminal competition out of the vory's area of operations. Now, with the central authority gone, new criminal elements from outside Russia were making a move on territories once considered the exclusive domain of the Vorovskoi Mir. This was a particular problem in the Caucasus

regions. For example the Chechen criminal element moved into Moscow itself as well as other large cities, in a direct challenge to the established criminal structure.⁸

Concurrent with the vory's recognition of these new opportunities certain members of the old communist party, seeking to ensure their power and wealth survived the coming "fall", were seeking out opportunities as well. As a result a 'new' Russian criminal was born. A hybrid of the old "Vor" from the Vorovskoi Mir and powerful members from the old communist party of the fallen central government.⁹

Another concept of Russian culture must be explained here in order to understand Russian society's 'predisposition' to the effects of organized crime. This is the concept of 'krysha'. This term can be loosely translated as 'roof' and in the context of organized crime refers to one's need for 'protection'.¹⁰ It is not only needed for protection from criminal elements, but also from corrupt government agencies, business rivals and politicians. 'Krysha' is a fact of life in today's Russian society with a government that is either ineffective or corrupt and a threat to its people.

Although some form of organized crime has flourished in Russia for centuries it was during the mid twentieth century that it started to grow into what it has become today. During the Stalinist period, Goldman asserts, the economic focus of the Soviet central government was on heavy industry -- that which made the USSR a great military power. Light industry, or what I would characterize as

the domestic economy engine, was the domain of organized crime as it then existed. The commodities dealt in were consumer goods and services which the state sector considered unimportant. Since demand usually outpaced supply, this was a lucrative market for criminal elements. However this is not to say that criminal activity occurred on the scale which we see today and with economic crimes punishable by death, infractions were less rampant and pervasive during the Stalinist era.

With the passing of Stalin, conditions and regulations became less severe and less likely to be strictly enforced. This was particularly true under Brezhnev. This softening of legal enforcement enabled criminal elements to operate more freely and the infamous Russian domestic black-market flourished. In fact Brezhnev's son-in-law, Yuri Churbanov, whom he had appointed Deputy Minister of the Interior, began to solicit bribes from the Mafia itself in Uzbekistan.¹¹

Brezhnev's successor was Yuri Andropov. As the former headed of the KGB, Andropov possessed a great deal of information on the criminal elements within the USSR. He also had a great sense of and drive for what we call in the west -- law and order. Consequently, during his 18 months in power Andropov targeted the criminal elements in Soviet society resulting in more control over the criminal elements within the country.¹²

The cycle reversed itself once again when Konstantin Chernenko took over when Andropov died. Corruption and crime started to come to the forefront once again. However, this halted abruptly in 1985 when Mikhail Gorbachev, an

Andropov protégé, was made general secretary. Once again Gorbachev led an aggressive crack down on the corrupt, criminal element within the Soviet Union.¹³

However, in a twist of irony, the explosion of organized crime in Russia can be laid directly at the feet of Gorbachev. In his effort to rapidly transform Soviet society through instituting his perestroika reforms and glasnost, the Soviet society literally came apart at its seams in 1991. In 1987, Gorbachev announced his privatization and cooperative business initiatives. However he included significant restrictions; for example, at first, only retirees and students were permitted to participate. This purpose of the decision to phase in reform was to ease the impact of the transition on state-owned enterprises. In other words Gorbachev wanted privatization, but was unwilling to risk the collapse of the state-owned/controlled economy.

This strategy of restricting the move to a private economy, according to Goldman, actually spawned a surge in the influence of the Mafia. This was because of the ability for an authority (government official) to rule or interpret various aspects of the restrictions in place. The Mafia had the money necessary to assure any 'ruling' or decision usually went in its favor.¹⁴

As a result the Mafia currently has a portion of control, if not outright ownership, of much of the Russian economy.

Organized Crime in Russia Today

With the foregoing as a backdrop, just how pervasive is organized crime in Russia today? The short answer is very. The long answer starts in 1994 - the 'Year of the Fight Against Organized Crime' in Russia, as proclaimed by President Boris Yeltsin.¹⁵

On February 24, 1994, Yeltsin told the nation that organized crime had Russia 'by the throat'.¹⁶ Although there was undoubtedly an element of domestic political posturing driving Yeltsin's 1994 proclamation, there were numerous statistical indicators which justified such a campaign against organized crime. Murder, kidnapping, car theft, illicit drug production and trafficking, financial crime (forgery and money laundering) and official corruption all showed statistical signs of increasing. Many of these crimes are associated with an increase of organized crime as well.

At the same time officials within the Russian government were becoming more concerned about the growth of organized crime within their country. Specifically in May 1994, Gennady Chebotaryov, Deputy Director of the Russian Ministry of Interior Affairs' Chief Administration for Combating Organized Crime reported the following statistics.¹⁷ Mafia-type structures control roughly 40,000 businesses, including 2,000 state enterprises, 4,000 joint-stock companies, 9,000 cooperatives, 7,000 small enterprises, 400 banks and exchanges and more than 700 markets. He continued by providing information on the activity of Russian 'crime kingpins' in other countries to include Poland, Hungary and

Bulgaria. However he noted the activities of these organizations were likely exaggerated.

Mr. Chebotaryov's figures are reinforced by public attitudes within Moscow itself. Nugzar Betareli, Director of the Institute of the Sociology of Parliamentarism reported the following results of a survey in the May 17, 1994 issue of *Izvestia*.¹⁸ Ninety-one percent of Muscovites reported feeling a sense of fear because of the level of crime within Moscow. In addition, 27% of those surveyed reported that in the past year, they themselves, or their loved ones, found themselves in a situation that threatened their personal safety.

Nor has the situation improved since 1994. On the contrary conditions continue to deteriorate. Then CIA director John Deutch testified before Congress that crime and corruption were jeopardizing US investment in Russia. He reported that 70-80% of private businesses were subjected to extortion.¹⁹

This activity has allegedly lead to a gangland-style murder of an American businessman in Moscow. In November 1996, Mr. Paul Tatum, from Oklahoma, was shot 11 times in broad daylight by a single gunman firing a Kalishnikov machine-gun.²⁰ Mr. Tatum was involved in a joint \$50 million business project involving a large hotel in Moscow. The venture was initiated in the 1980s and was hailed by then Presidents Bush and Gorbachev as an excellent example of joint American-Soviet business operations. However, the model joint venture turned bad. Tatum made claims that his two primary business partners (Russians) were trying to force him out of the venture. No one is speculating

who killed Paul Tatum. However the US government has requested Russian authorities to launch an aggressive investigation. In response the Minister Kulikov has announced that he is personally supervising the effort. Given the circumstances surrounding the murder, and the method in which it was conducted, this case is likely to go the way of the many, many similar murders in Moscow -- unsolved.

The traditional spheres of organized crime include gambling, prostitution, extortion, drugs, and most recently, trafficking in arms. To be sure organized criminal activity in Russia has become very proficient in these aspects of their 'business'.

In late December 1991, thirty of the top leaders (vory) of Russian organized crime met in a dacha in the Vedentsovo region near Moscow.²¹ These men represented organized crime from many of the former Soviet Union states. They came from Georgia, the Odessa, Ukraine, Armenia, and St. Petersburg. They gathered to map out a strategy of preserving their criminal operations in light of the chaos and path of change that the Soviet society was undergoing.

Also during this meeting they decided to send an 'emissary' to the United States to investigate commercial opportunities.²² The man they chose for this assignment was a vor by the name of Vyacheslav Ivankov. We will read more about him in the next section!

Organized Crime in America - Brought to You by Russian Mobsters

Since the early 1990s, law enforcement authorities in the United States at the federal, state and local levels have become increasingly concerned about the potential growth of Russian organized crime in this country.²³ The highest profile case of a Russian 'Vor' in the United States involves a Mr. Vyacheslav Kirillovich Ivankov. Nicknamed Yaponchik "Little Japanese", he is reputed to be one of the most infamous godfathers of the Russian underworld.²⁴

Yaponchik's 1992 entry (following the secret meeting of 'vory' near Moscow) into the United States was accompanied by a warning to the FBI from the Russian Ministry of the Interior (M.V.D.) as to his intentions. They flatly stated that Mr. Ivankov's mission in the United States was "to manage and control Russian organized crime in this country."²⁵ In June, 1995 Mr. Ivankov was arrested by the FBI and charged with extortion and attempted extortion of Russian-owned businesses in the Brighton Beach area of Brooklyn. In July 1996 he and three co-defendants were convicted of extortion.²⁶ They face up to 20 years in prison pending their appeals.

Although the FBI was encouraged by the relatively early arrest and conviction of Ivankov, they remain concerned about the growing impact of criminal elements from Russia operating within the United States. Their concern is echoed at the state level as well. Several states, including California, have

formed task forces to investigate and monitor the development of Russian organized crime within their boundaries.

Analysis - The Impact on Russia

The results of the uncontrolled operation of organized crime within the former Soviet Union countries, particularly Russia, is profound. The impact is particularly important in the areas of the Russian economy and foreign investment opportunities.

Consider government statistics cited by the Russian Chamber of Commerce that nearly 70% of all businesses report they pay protection money (ranging from 10-20% of their gross revenue) to organized crime.²⁷ This is far more than say they pay taxes to the state.

Former CIA director John Deutch testified before Congress that Russian organized crime exports an estimated \$1.5 billion a month to Western bank accounts.²⁸ Of course this money is skimmed off of the top of the Russian economy depriving the state of much needed tax revenue.

During this hearing, Representative Henry Hyde quoted another report that claimed 30 percent of the Russian parliament has connections to organized crime, while Prime Minister Viktor Chernomyrdin has built a \$5 billion fortune by skimming money from gas and oil deals.²⁹ This charge (that Chernomyrdin 'enjoys' illegal profits from his association with the Gazprom is generally common knowledge within Russia) is illustrative of what is referred to as the new criminal

within Russia. An element that is the joining of the old, established, organized crime elements (the *vory*) with powerful members from the *nomenklatura* of the Communist Party. Essentially a marriage of convenience as the *vory* possessed the 'ways' and the *nomenklatura*³⁰ possessed the 'means' to ensure tremendous wealth/profits (the 'ends').

The case of Grigori Loutchansky and his involvement with a firm known as Nordex is illustrative of opportunism and criminality on an international scale.³¹ Mr. Loutchansky was born in Rita, Latvia which was then, of course, a part of the Soviet Union. In the late 1980s he started a business selling mineral fertilizer to foreigners for a large Soviet agriculture firm called Adazhi. He was so successful as a business man that he soon came to the attention of Communist officials in Moscow. These officials, apparently seeing the handwriting on the wall, were looking for a way to divert money from the Soviet Union to banks and enterprises outside of the country.

In December, 1989, Loutchansky founded Nordex as a joint venture between his current employer (Adazhi) and two small Swiss companies. Allegedly billions of dollars were funneled out of the Soviet Union into Nordex prior to the collapse of the Soviet Union. The connection between the government and Nordex was apparently Vladimir Shcherbakov, the Vice Premier in the last Communist Party government in the Soviet Union. He resigned from his post about one month after the aborted coup attempt against Gorbachev in August 1991.

Shcherbakov went on and established the International Foundation for Privatization and Foreign Investment (FPI) in order to 'assist' in the privatization of Soviet state companies. By Shcherbakov's own account, FPI (partly bankrolled and partly owned by Nordex) completed 70 of the first 100 privatization sales of government enterprises to private concerns.

Loutchansky remains under considerable suspicion by the international law enforcement community. The suspicion surrounding Loutchansky was most recently documented by Bob Woodward, a Washington Post Staff writer. He writes in an April 8, 1997 article that Loutchansky's invitation to a \$25,000-a-person fund raising dinner with President Clinton was withdrawn based upon top secret information gathered by the National Security Agency (NSA).³² The information derived by NSA intercept of telephone calls involving Loutchansky and known members of organized crime was provided through the National Security Council to the Democratic National Committee. This episode supports the previous documented suspicions of Loutchansky's involvement with organized crime.

Solutions

So what can be done to solve this critical problem? Solutions are being undertaken both domestically within Russia and internationally. First, President Boris Yeltsin has recognized the problem and is attempting to minimize the impact of organized crime within Russia. He designated 1994 as the Year of the Fight Against Organized Crime in Russia.³³ However, Russian authorities found

themselves hampered in their efforts by the lack of adequate legislation. Legislation, which resembles the anti-racketeering laws of the United States and western European countries, is being developed by the Russian government.

The pivotal question for success of the current Russian government's ability to defeat organized crime is how 'deep' does the corruption within the Russian government go. The case of Viktor Chernomyrdin's profits from his association of the Gazprom suggests the corruption may be deeply rooted in the current government of Russia. The fact that over 60% of local government and bureaucratic level positions and 90% of the positions in the Russian central government are filled by members (or in some cases ex-members) of the Communist Party suggests the potential for considerable corruption.³⁴ Also, as demonstrated by the Nordex development, some outside the current government may hold great influence over those still in power.

International response to this threat should focus on law enforcement (including intelligence sharing) and economic cooperation. First law enforcement authorities must share information on the problem of international organized crime and agree to support their respective investigations. Raymond Kendall, the Chief of Interpol, is currently pressing Russia's interior ministry to work with him on setting up offices of Interpol within Russia. The first offices are targeted to go into Moscow and St. Petersburg. The suggestion was well received by Russian authorities and offices will likely be opened soon.³⁵

Unilaterally, the FBI has announced plans to open 23 new offices in overseas cities to coordinate information on international crime.³⁶ However, this initiative is not without conflicts within the interagency process of the US government. As reported by the Washington Post on 18 March, friction exists between the FBI, the CIA, and the Department of State (DOS) on this matter.³⁷ One of the problems at issue is the sharing of intelligence information which is at the heart of the success for the FBI. The CIA is very concerned with the sharing of information they collect, particularly HUMINT, with foreign countries. They are reluctant to use these sources for law enforcement purposes in a way which might result in their compromise and subsequent loss.

Also noted in this article is the potential of some professional jealousy on the part of the DOS. While State's budgets have generally fallen in the past few years, the FBI has gained additional funding for its movement into the international arena.³⁸ For example, the FBI entered 1996 with only \$420K to open one new international office - in Beijing. However FBI Director Freeh wrote the Senate Appropriations committee last year stating that the FBI could establish 10 overseas offices in 1996 for \$9.7 million. The Senate approved the additional funds. The DOS expressed its dissatisfaction with such growth and the funds were eventually cut to \$3.5 million which would be released only after the FBI submitted expansion plans for just five vice 10 new posts. This episode illustrates the bureaucratic difficulties in shaping our response to the challenge of international organized crime.

One of the biggest problems for organized crime is laundering the enormous amount of money their enterprises generate. In 1990 26 nations organized to form the Financial Action Task Force (FATF).³⁹ This international body monitors financial transactions in an effort to identify suspicious financial activity. The limits on their effectiveness is that banking regulations of some countries are written to protect the identity and financial activities of their depositors. However, the FATF does conduct conferences and working group meetings worldwide to examine progress towards the implementation of its recommendations.

The potential for US military direct involvement in combating organized crime in Russia is virtually non-existent. The only conceivable area which I believe the military could become directly involved would be in the area of intelligence analysis support. However even this is highly unlikely, particularly given the drawdown of the U.S. military in recent years.

Nonetheless, it remains important that strategic military leaders be knowledgeable about this issue. Our continuing involvement around the world will likely force strategic leaders to confront many aspects of organized crime in context of deployments abroad. In some countries, particularly those of Eastern Europe, host nation support and service organizations may have connections to organized crime. Strategic leaders must remain cautious in dealing with local contractors and perhaps even leaders of host nation governments and militaries.

Next, in considering force protection a strategic leader should never underestimate the capability or motivation of host nation organized criminal elements, particularly in areas or countries which have more established and successful organized crime histories. In sum, future deployments, particularly to areas where organized crime is well established, will be more susceptible to pilfering, or even wholesale theft of large quantities of weapons, material (such as trucks and other vehicles) and supplies.

Conclusions

While a limited threat to the United States military, organized crime in Russia is a threat to US interests of regional stability, development of free market-based economies and control of the proliferation of weapons of mass destruction. These interests are best served by a viable, democratic government in Russia. Organized crime is a direct and serious threat to the economic reforms which are necessary if democratic reforms within Russia are to succeed.

Clearly the solution must come from within the Russian state itself; neither an outside nation nor a coalition of nations can impose a solution on Russia. However, it is imperative that the other nations of the world cooperate to contain the spread of Russian organized crime. Likewise other nations can assist the leadership of Russia in battling organized crime. Assistance in the form of cooperative law enforcement operations, criminal intelligence expertise and economic aid to reinforce Russian success are appropriate.

The Russian people, have long suffered a history of harsh governmental repression. They are growing impatient with the democratic reform progress. Many, particularly in rural areas, believe a return to a central government under communism is preferable to the state of economic and governmental affairs of today. If the international community cannot assist Russia in throwing off the shackles of organized crime and genuinely aid Russia in her quest toward creating a free market-based society, the democratic movement in Russia, and in many of the former Soviet Union states, may well fail. If this should occur, western democracies will have let a momentous opportunity slip from their grasp -- the opportunity to bring a potentially rich economic, cultural and historical society into the brotherhood of democratic nations.

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